Butterfield

First Quarter 2010

The Bank of N.T. Butterfield & Son Limited

Report to shareholders and financial results for the three months ended 31 March 2010

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Balance Sheet

(In thousands of Bermuda dollars)

	As at	
	31 March 2010	31 December 2009
Assets		
Cash and demand deposits with banks	**441,575**	551,249
Term deposits with banks	**2,836,842**	1,435,549
Total cash and deposits with banks	**3,278,417**	1,986,798
Investments		
Trading	**46,016**	47,780
Available for sale	**2,183,362**	2,067,163
Held to maturity	**-**	838,715
Total investments	**2,229,378**	2,953,658
Loans, net of allowance for credit losses	**4,114,438**	4,218,332
Premises, equipment and computer software	**249,618**	244,242
Accrued interest	**18,496**	16,285
Goodwill	**15,630**	16,712
Intangible assets	**46,453**	50,129
Investments in affiliates	**37,957**	38,518
Other assets	**69,706**	69,928
Total assets	**10,060,093**	9,594,602
Liabilities		
Deposits		
Non-interest bearing	**1,110,101**	954,191
Interest bearing		
Customers	**7,535,124**	7,623,753
Banks	**96,906**	118,675
Total deposits	**8,742,131**	8,696,619
Employee future benefits	**144,281**	141,741
Accrued interest	**11,100**	12,391
Preference shares dividend payable	**715**	1,337
Other liabilities	**130,275**	103,969
Total other liabilities	**286,371**	259,438
Subordinated capital	**282,587**	283,085
Total liabilities	**9,311,089**	9,239,142
Shareholders' equity		
Common share capital ($1.00 par; authorised shares 260,000,000 (2009: 260,000,000)) issued and outstanding: 243,867,717 (2009: 99,060,111)	**243,868**	99,060
Preferred share capital ($0.01 par; $1,000 liquidation preference) issued and outstanding: 200,000 (2009: 200,000)	**2**	2
Mandatorily convertible preferred share capital ($0.01 par; $1,000 liquidation preference) issued and outstanding: 281,770 (2009: nil)	**3**	-
Contingent convertible preferred share capital ($0.01 par; $1,000 liquidation preference) issued and outstanding: 93,230 (2009: nil)	**1**	-
Additional paid in capital	**1,134,550**	764,206
Accumulated deficit	**(464,806)**	(283,964)
Less: treasury common shares (2,556,379 shares; 2009: 3,426,106 shares)	**(31,216)**	(34,660)
Accumulated other comprehensive loss	**(133,398)**	(189,184)
Total shareholders' equity	**749,004**	355,460
Total liabilities and shareholders' equity	**10,060,093**	9,594,602

The accompanying notes are an integral part of these consolidated financial statements.

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statement of Operations
(In thousands of Bermuda dollars, except per share data - unaudited)

	For the three month period ended	
	31 March 2010	31 March 2009
Non-interest income		
Asset management	**6,029**	7,456
Banking	**9,273**	8,942
Foreign exchange revenue	**8,686**	8,750
Trust	**7,216**	6,484
Custody and other administration services	**3,603**	3,725
Other non-interest income	**5,682**	5,262
Total non-interest income	**40,489**	40,619
Interest income		
Loans	**48,263**	52,257
Investments	**7,523**	18,664
Deposits with banks	**2,639**	5,406
Total interest income	**58,425**	76,327
Interest expense		
Deposits	**12,163**	23,075
Subordinated capital	**3,433**	3,916
Securities sold under repurchase agreements	**-**	80
Total interest expense	**15,596**	27,071
Net interest income before provision for credit losses	**42,829**	49,256
Provision for credit losses	**(1,058)**	(978)
Net interest income after provision for credit losses	**41,771**	48,278
Net trading gains	**957**	246
Net realised losses on available for sale investments	**(113,757)**	(273)
Other-than-temporary impairment losses on available for sale investments	**(60,522)**	-
Net realised gains on held to maturity investments	**-**	176
Other-than-temporary impairment losses on held to maturity investments	**-**	(40,949)
Net other gains	**54**	1,963
Total (loss) revenue	**(91,008)**	50,060
Non-interest expense		
Salaries and other employee benefits	**47,782**	40,675
Technology and communications	**12,559**	9,769
Property	**7,077**	6,907
Professional and outside services	**1,685**	4,230
Non-income taxes	**3,758**	2,908
Amortisation of intangible assets	**1,465**	1,463
Marketing	**1,112**	1,412
Other expenses	**12,388**	5,576
Total non-interest expense	**87,826**	72,940
Net loss before income taxes	**(178,834)**	(22,880)
Income tax benefit	**2,492**	2,107
Net loss	**(176,342)**	(20,773)
Cash dividends declared on preferred shares	**(4,000)**	**-**
Preferred shares guarantee fee	**(500)**	**-**
Net loss attributable to common shareholders	**(180,842)**	(20,773)
Loss per common share		
Basic	**(0.75)**	(0.22)
Diluted	**(0.75)**	(0.22)

The accompanying notes are an integral part of these consolidated financial statements.

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statement of Changes in Shareholders' Equity

(In thousands of Bermuda dollars - unaudited)

	For the three month period ended	
	31 March 2010	31 March 2009
Common share capital issued and outstanding		
Balance at beginning of period (2010: 99,060,111 shares; 2009: 98,399,858 shares)	**99,060**	98,400
Issuance (2010: 144,807,606 shares; 2009: nil shares)	**144,808**	-
Balance at end of period (2010: 243,867,717 shares; 2009: 98,399,858 shares)	**243,868**	98,400
Preferred shares		
Balance at beginning of period (2010: 200,000 shares; 2009: nil shares)	**2**	-
Issuance (2010: nil; 2009: nil shares)	**-**	-
Balance at end of period (2010: 200,000 shares; 2009: nil shares)	**2**	-
Mandatorily Convertible Preferred shares		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	**-**	-
Issuance (2010: 281,770 shares; 2009: nil shares)	**3**	-
Balance at end of period (2010: 281,770 shares; 2009: nil shares)	**3**	-
Contingent Convertible Preferred shares		
Balance at beginning of period (2010: nil shares; 2009: nil shares)	**-**	-
Issuance (2010: 93,230 shares; 2009: nil shares)	**1**	-
Balance at end of period (2010: 93,230 shares; 2009: nil shares)	**1**	-
Additional paid in capital		
Balance at beginning of period	**764,206**	604,116
Stock option plan expense	**2,654**	554
Issuance of common shares	**30,192**	-
Issuance of mandatorily convertible preferred shares	**281,769**	-
Issuance of contingent convertible preferred shares	**93,229**	-
Cost of capital raise	**(34,500)**	-
Cost of rights offering	**(3,000)**	-
Balance at end of period	**1,134,550**	604,670
Accumulated deficit		
Balance at beginning of period	**(283,964)**	(35,006)
Net loss for period	**(176,342)**	(20,773)
Cash dividends declared on common shares	**-**	(3,815)
Cash dividends declared on preferred shares	**(4,000)**	-
Preferred shares guarantee fee	**(500)**	-
Balance at end of period	**(464,806)**	(59,594)
Treasury common shares		
Balance at beginning of period (2010: 3,426,106 shares; 2009: 6,473,180 shares)	**(34,660)**	(82,700)
ELTIP share option expense	**3,444**	366
Balance at end of period (2010: 2,556,379 shares; 2009: 6,463,144 shares)	**(31,216)**	(82,334)

The Bank of N.T. Butterfield & Son Limited

Unaudited Consolidated Statement of Changes in Shareholders' Equity (continued)

(In thousands of Bermuda dollars - unaudited)

	For the three month period ended	
	31 March 2010	31 March 2009
Accumulated other comprehensive loss		
Balance at beginning of period	**(189,184)**	(66,370)
Net change in unrealised gains and losses on translation of net investment in foreign operations	**(5,230)**	(1,228)
Net change in unrealised gains and losses on available for sale investments	**1,097**	(1,254)
Net change in unrealised non-credit losses on held to maturity investments	**58,557**	-
Net change in employee future benefits liability	**1,362**	1,155
Balance at end of period	**(133,398)**	(67,697)
Total shareholders' equity	**749,004**	493,445
Comprehensive loss		
Net loss	**(176,342)**	(20,773)
Other comprehensive income (loss)	**55,786**	(1,327)
Total comprehensive loss	**(120,556)**	(22,100)
Components of accumulated other comprehensive loss		
Cumulative unrealised gains and losses on translation of investment in foreign operations	**(12,880)**	(13,921)
Cumulative unrealised gains and losses on available for sale investments	**(55,894)**	(3,788)
Cumulative change in employee future benefits liability	**(64,624)**	(49,988)
Balance at end of period	**(133,398)**	(67,697)

The accompanying notes are an integral part of these consolidated financial statements.

The Bank of N.T. Butterfield & Son Limited
Unaudited Consolidated Statement of Cash Flows

(In thousands of Bermuda dollars - unaudited)

	For the three month period ended	
	31 March 2010	31 March 2009
Cash flows from operating activities		
Net loss	**(176,342)**	(20,773)
Adjustments to reconcile net loss to operating cash flows		
Depreciation and amortisation	**5,748**	6,911
Decrease (increase) in carrying value of investments in affiliates	**561**	(566)
Share-based payments	**6,098**	803
Loss on sale of premises and equipment	**(8)**	-
Net gains on credit derivative instruments	**-**	(1,830)
Net realised gains and other-than-temporary impairments on held to maturity investments	**-**	40,773
Net realised losses and other-than-temporary impairments of available for sale securities	**174,279**	273
Provision for credit losses	**1,058**	978
Changes in operating assets and liabilities		
(Increase) decrease in accrued interest receivable	**(2,431)**	15,255
(Increase) decrease in other assets	**(1,118)**	2,067
Decrease in accrued interest payable	**(1,220)**	(2,290)
Increase in other liabilities	**29,859**	23,329
	36,484	64,930
Net change in trading investments	**772**	1,636
Cash provided by operating activities	**37,256**	66,566
Cash flows from investing activities		
Net increase in term deposits with banks	**(1,450,534)**	(914,567)
Net additions to premises, equipment and computer software	**(10,120)**	(13,242)
Net decrease in loans	**50,665**	147,432
Held to maturity investments: proceeds from maturities	**21,027**	454,015
Available for sale investments: proceeds from sale and maturities	**1,544,048**	644,998
Available for sale investments: purchases	**(1,025,635)**	(268,740)
Cash (used in) provided by investing activities	**(870,549)**	49,896
Cash flows from financing activities		
Net increase (decrease) in demand and term deposit liabilities	**203,273**	(420,299)
Net increase in securities sold under agreement to repurchase	**-**	106,942
Issuance of common share capital	**175,000**	-
Issuance of preferred share capital	**375,000**	-
Cost of issuing share capital and rights	**(26,578)**	-
Net other movements in treasury common shares	**-**	117
Cash dividends paid on preferred shares	**(4,622)**	-
Preferred shares guarantee fee paid	**(500)**	-
Cash provided by (used in) financing activities	**721,573**	(313,240)
Effect of exchange rates on cash and demand deposits with banks	**2,046**	509
Net decrease in cash and demand deposits with banks	**(109,674)**	(196,269)
Cash and demand deposits with banks: beginning of period	**551,249**	572,441
Cash and demand deposits with banks: end of period	**441,575**	376,172

The accompanying notes are an integral part of these consolidated financial statements.

Note 1: Significant Accounting Policies

The accompanying unaudited interim consolidated financial statements of The Bank of N.T. Butterfield & Son Limited (the "Bank" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and should be read in conjunction with the Bank's audited financial statements for the year ending 31 December 2009. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current period's presentation.

In the opinion of Management, these unaudited interim consolidated financial statements reflect all adjustments (consisting principally of normal recurring accruals) considered necessary for a fair presentation of the Bank's financial position and results of operations as at the end of and for the periods presented. Consequently, the Bank's results for interim periods are not necessarily indicative of results for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the Unaudited Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Bank's principal estimates include:

(i) Allowance for credit losses
(ii) Investments
(iii) Impairment of long-lived assets
(iv) Impairment of goodwill
(v) Employee future benefits
(vi) Fair value of financial instruments
(vii) Concentrations of credit risk & customers
(viii) Commitments and contingencies
(ix) Going concern

The following significant accounting policies were adopted by the Bank during the three months ended 31 March 2010. The adoption of these policies did not have a material impact on the Bank's financial position or results of operations.

Fair Value Measurements and Disclosures — Improving Disclosures about Fair Value Measurements
In January 2010, the FASB issued an accounting standards update on Improving Disclosures about Fair Value Measurements which clarified existing disclosure requirements, about fair value measurements. The additional requirements included disclosure regarding the amounts and reasons for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and also separated presentation of purchases, sales, issuances and settlements of items measured using significant unobservable inputs (i.e. Level 3). The guidance clarified existing disclosure requirements regarding the inputs and valuation techniques used to measure fair value for measurements that fall in either Level 2 or Level 3 of the hierarchy. The requirements were effective for interim and annual reporting periods beginning after 15 December 2009 except for the disclosures about purchases, sales, issuances and settlements which will become effective for fiscal years beginning after 15 December 2010 and for interim periods within those fiscal years.

Accounting for transfers of financial assets
In June 2009, the FASB issued final authoritative guidance over accounting for transfers of financial assets which removed the concept of a qualifying special-purpose entity from existing accounting guidance over transfers of financial assets and also removed the exception from applying guidance surrounding consolidation of variable interest entities to qualifying special-purpose entities. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited.

Accounting for consolidation of variable interest entities
In June 2009, the FASB issued final authoritative accounting guidance in an effort to improve financial reporting by enterprises involved with variable interest entities. This guidance retained the scope of the previous standard covering variable interest entities with the addition of entities previously considered qualifying special-purpose entities, as the concept of these entities was eliminated in the new authoritative guidance. The new guidance required an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity under revised guidelines that are more qualitative than under previous guidance and amends previous guidance to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Before this update, previous guidance required reconsideration of whether an enterprise is the primary beneficiary of a variable interest entity only when specific events occurred.

The new guidance also amended previous guidance to require enhanced disclosures that provide users of financial statements with more transparent information about an enterprise's involvement with a variable interest entity. The enhanced disclosures are required for any enterprise that holds a variable interest in a variable interest entity. The guidance was effective for all interim and annual periods beginning after 15 November 2009. Earlier application was prohibited.

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 2: Cash and Deposits with Banks

	31 March 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Unrestricted						
Non-interest earning						
Cash and demand deposits	109,844	41,523	151,367	30,030	52,914	82,944
Interest earning						
Deposits maturing within three months and on demand	1,085,284	2,010,984	3,096,268	247,589	1,628,336	1,875,925
Deposits maturing between three to six months	-	2,511	2,511	-	2,030	2,030
Deposits maturing between six to twelve months	-	8,242	8,242	-	2,239	2,239
Sub-total - Interest earning	1,085,284	2,021,737	3,107,021	247,589	1,632,605	1,880,194
Total unrestricted cash and deposits	1,195,128	2,063,260	3,258,388	277,619	1,685,519	1,963,138
Affected by drawing restrictions related to minimum reserve and derivative margin requirements						
Non-interest earning						
Demand deposits	-	7,700	7,700	-	8,463	8,463
Interest earning						
Deposits maturing within three months	11,776	553	12,329	14,871	326	15,197
Total restricted deposits	11,776	8,253	20,029	14,871	8,789	23,660
Total cash and deposits with banks	1,206,904	2,071,513	3,278,417	292,490	1,694,308	1,986,798

Note 3: Investments

Transfer of investments from the HTM to the AFS portfolio

The remaining HTM portfolio as at 31 December 2009 was transferred to the AFS portfolio in March 2010 as the Company no longer had the intent following the Capital Raise to hold these securities to maturity. The net carrying amount of the transferred securities was $805.0 million at the time of the transfer. Subsequent to the transfer, a net unrealised non-credit loss of $126.3 million was recognised in AOCI.

During the three month period ended 31 March 2010, the Bank concluded its strategy to de-risk the balance sheet through the sale of asset-backed securities totalling $820.1 million in sale proceeds, resulting in a net realised loss to earnings of $113.8 million.

Amortised cost, carrying amount and estimated fair value

The amortised cost, carrying amounts and fair values, are as follows:

	31 March 2010				31 December 2009			
	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value	Amortised cost	Gross unrealised gains	Gross unrealised losses	Carrying amount / Fair value
Available for sale								
Certificates of deposit	1,346,574	5,387	(53)	1,351,908	1,036,190	4,353	(946)	1,039,597
US government and federal agencies	45,162	89	(509)	44,742	66,915	89	(909)	66,095
Debt securities issued by non-US governments	51,181	1,013	(99)	52,095	12,456	-	-	12,456
Corporate debt securities	452,658	2,225	(7,507)	447,376	550,227	1,071	(9,154)	542,144
Mortgage-backed securities – Prime	-	-	-	-	30,967	-	(1,319)	29,648
Mortgage-backed securities – Subprime and Alt-A	-	-	-	-	35,033	421	(708)	34,746
Mortgage-backed securities – Commercial	-	-	-	-	6,312	8	-	6,320
Asset-backed securities - Student loans	156,008	-	(4,762)	151,246	156,285	-	(5,568)	150,717
Asset-backed securities - Automobile loans	-	-	-	-	116,018	-	(3,139)	112,879
Asset-backed securities - Credit cards	-	-	-	-	4,818	-	(322)	4,496
Collateralised debt and loan obligations	-	-	-	-	19,514	-	(1,450)	18,064
Structured investments vehicles	189,826	-	(53,900)	135,926	86,508	-	(36,579)	49,929
Equity securities	118	-	(49)	69	125	-	(53)	72
Total available for sale	2,241,527	8,714	(66,879)	2,183,362	2,121,368	5,942	(60,147)	2,067,163

(In thousands of Bermuda dollars, except per share data - unaudited)

There were no held to maturity investments as at 31 March 2010.

31 December 2009	Amortised cost	Non-credit impairments recognised in AOCI	Carrying amount	Gross unrecognised gains	Gross unrecognised losses	Fair value
Held to maturity						
Debt securities issued by non-US governments	28,893	-	28,893	1,160	(19)	30,034
Corporate debt securities	205,938	-	205,938	1,390	(5,677)	201,651
Mortgage-backed securities – Prime	18,498	-	18,498	-	(674)	17,824
Mortgage-backed securities – Subprime and Alt-A	216,573	(15,918)	200,655	-	(61,583)	139,072
Mortgage-backed securities – Commercial	39,996	-	39,996	-	(7,194)	32,802
Asset-backed securities - Student loans	10,854	-	10,854	-	(995)	9,859
Asset-backed securities - Automobile loans	10,000	-	10,000	-	(1,085)	8,915
Asset-backed securities - Commercial	43,560	(11,771)	31,789	-	(4,295)	27,494
Asset-backed securities - Credit cards	10,070	-	10,070	-	(675)	9,395
Collateralised debt and loan obligations	141,407	-	141,407	-	(37,691)	103,716
Structured investments vehicles	174,484	(33,869)	140,615	-	(30,184)	110,431
Total held to maturity	900,273	(61,558)	838,715	2,550	(150,072)	691,193

Unrealised loss positions

The following tables show the fair value and gross unrealised losses of the Bank's investments with unrealised losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealised loss position. Debt securities are categorised as being in a continuous loss position for "less than 12 months" or "12 months or more" based on the point in time that the fair value declined below the cost basis.

	Less than 12 months		12 months or more			
31 March 2010	**Fair value**	**Gross unrealised losses**	**Fair value**	**Gross unrealised losses**	**Total fair value**	**Total gross unrealised losses**
Available for sale						
Certificates of deposit	**252,442**	**(53)**	**-**	**-**	**252,442**	**(53)**
US government and federal agencies	**-**	**-**	**41,094**	**(509)**	**41,094**	**(509)**
Debt securities issued by non-US governments	**8,427**	**(85)**	**987**	**(14)**	**9,414**	**(99)**
Corporate debt securities	**-**	**-**	**442,870**	**(7,507)**	**442,870**	**(7,507)**
Asset-backed securities - Student loans	**-**	**-**	**151,246**	**(4,762)**	**151,246**	**(4,762)**
Structured investments vehicles	**102,132**	**(53,900)**	**-**	**-**	**102,132**	**(53,900)**
Equity securities	**-**	**-**	**69**	**(49)**	**69**	**(49)**
Total available for sale securities	**363,001**	**(54,038)**	**636,266**	**(12,841)**	**999,267**	**(66,879)**

(In thousands of Bermuda dollars, except per share data - unaudited)

	Less than 12 months		12 months or more			
31 December 2009	Fair value	Gross unrealised losses	Fair value	Gross unrealised losses	Total fair value	Total gross unrealised losses
Available for sale						
Certificates of deposit	226,933	(946)	-	-	226,933	(946)
US government and federal agencies	-	-	62,404	(909)	62,404	(909)
Corporate debt securities	-	-	502,440	(9,154)	502,440	(9,154)
Mortgage-backed securities – Prime	-	-	29,648	(1,319)	29,648	(1,319)
Mortgage-backed securities – Subprime and Alt-A	-	-	26,345	(708)	26,345	(708)
Asset-backed securities - Student loans	-	-	150,716	(5,568)	150,716	(5,568)
Asset-backed securities - Automobile loans	-	-	112,880	(3,139)	112,880	(3,139)
Asset-backed securities - Credit cards	-	-	4,496	(322)	4,496	(322)
Collateralised debt and loan obligations	-	-	18,063	(1,450)	18,063	(1,450)
Structured investments vehicles	49,929	(36,579)	-	-	49,929	(36,579)
Equity securities	72	(53)	-	-	72	(53)
Total available for sale securities with unrealised losses	276,934	(37,578)	906,992	(22,569)	1,183,926	(60,147)
Held to maturity						
Debt securities issued by non-US governments	1,996	(19)	-	-	1,996	(19)
Corporate debt securities	12,961	(781)	183,782	(4,896)	196,743	(5,677)
Mortgage-backed securities – Prime	-	-	17,823	(674)	17,823	(674)
Mortgage-backed securities – Subprime and Alt-A	-	-	120,313	(61,583)	120,313	(61,583)
Mortgage-backed securities – Commercial	-	-	32,801	(7,194)	32,801	(7,194)
Asset-backed securities - Student loans	-	-	9,859	(995)	9,859	(995)
Asset-backed securities - Automobile loans	-	-	8,915	(1,085)	8,915	(1,085)
Asset-backed securities - Commercial	-	-	17,613	(4,295)	17,613	(4,295)
Asset-backed securities - Credit cards	-	-	9,395	(675)	9,395	(675)
Collateralised debt and loan obligations	-	-	101,700	(37,691)	101,700	(37,691)
Structured investments vehicles	63,362	(30,184)	-	-	63,362	(30,184)
Total held to maturity securities	78,319	(30,984)	502,201	(119,088)	580,520	(150,072)

The following is a description of the Bank's main investments categories and the key assumptions used in estimating the present value of cash flows most likely to be collected

Certificates of deposit

As of 31 March 2010, gross unrealised losses on the Bank's holdings of certificates of deposit (CDs) were $0.05 million, all of which related to CDs that have been in an unrealised loss position for less than 12 months. Management assesses the credit quality of the issuers, which includes assessments of credit ratings (the Bank only purchases CDs that are rated investment grade) and credit worthiness of the issuer and concluded that the CDs do not have any credit losses. The unrealised losses were due to increasing interest rates and widened credit spreads caused by illiquidity since the time of purchase.

US government and federal agencies

As of 31 March 2010, gross unrealised losses on securities related to United States (US) government and federal agencies were $0.5 million, all of which related to investments that were in an unrealised loss position for longer than 12 months. Management believes these securities do not have any credit losses, given the explicit and implicit guarantees provided by the US federal government.

Debt securities issued by non-US governments

As of 31 March 2010, gross unrealised losses on debt securities issued by non-US governments were $0.1 million, of which $0.01 million related to investments that were in an unrealised loss position for longer than 12 months. All securities in this category were issued by governments of Caribbean jurisdictions. These securities do not have any credit losses, given the explicit and implicit guarantees provided by the non-US governments. The unrealised losses were due to widened credit spreads caused by illiquidity.

Corporate debt securities

As of 31 March 2010, gross unrealised losses related to corporate debt securities were $7.5 million, all of which related to investments that were in an unrealised loss position for longer than 12 months. Overall losses have decreased since 31 December 31 2009, mainly as a result of an increase in high-yield markets, lower default forecasts and spread tightening across various asset classes. Management believes these securities do not have any credit losses.

(In thousands of Bermuda dollars, except per share data - unaudited)

Asset-backed securities - Student loans

As of 31 March 2010, gross unrealised losses on student-loan asset backed securities were $4.7 million, all of which related to securities that have been in an unrealised loss position for longer than 12 months. All of these securities are "AAA" rated and management believes these securities do not have any credit losses. There are explicit and implicit guarantees provided by the US government. The unrealised losses were due to widened credit spreads caused by illiquidity.

Structured investment vehicles

A structured investment vehicle (SIV) was a type of fund whose strategy was to borrow money by issuing highly rated short-term securities bearing low interest and then invest that money by buying long-term securities such as a range of asset-backed securities, as well as some corporate bonds, earning higher interest, making a profit from the spread.

As of 31 March 2010, gross unrealised losses related to SIVs were $53.9 million, all of which related to SIVs that were in an unrealised loss position for less than 12 months. Overall unrealised losses have decreased since 31 December 2009 as a result of the OTTI recognised which was slightly off-set by the decrease in fair value. The Bank has recognised $60.5 million of OTTI losses in net income for SIVs whose underlying cash flow assumptions have deteriorated. In analysing SIVs for potential credit losses, key inputs to cash flow projections were congruous with the key inputs noted in the Bank’s audited financial statements for the year ending 31 December 2009 for each collateral class.

The following table presents securities by remaining term to earlier of expected or contractual maturity:

	Remaining term to earlier of expected or contractual maturity					
31 March 2010	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
Trading						
Debt securities issued by non-US governments	-	843	3,114	3,239	-	7,196
Corporate securities and other	-	-	-	-	38,820	38,820
Total trading	-	843	3,114	3,239	38,820	46,016
Available for sale						
Certificates of deposit	670,685	496,880	184,343	-	-	1,351,908
US government and federal agencies	-	3,643	11,272	29,827	-	44,742
Debt securities issued by non-US governments	10,635	667	27,092	13,701	-	52,095
Corporate debt securities	38,161	105,784	298,072	5,359	-	447,376
Asset-backed securities - Student loans	-	-	8,434	142,812	-	151,246
Structured investments vehicles	-	-	135,926	-	-	135,926
Equity securities	-	-	-	-	69	69
Total available for sale	719,481	606,974	665,139	191,699	69	2,183,362
Total investments	719,481	607,817	668,253	194,938	38,889	2,229,378
Total by currency						
Bermuda dollars	-	-	-	-	173	173
US dollars	374,891	261,964	457,582	177,306	33,116	1,304,859
Other	344,590	345,853	210,671	17,632	5,600	924,346
Total investments	719,481	607,817	668,253	194,938	38,889	2,229,378

(In thousands of Bermuda dollars, except per share data - unaudited)

	Remaining term to earlier of expected or contractual maturity					
31 December 2009	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	No specific maturity	Carrying amount
Trading						
Debt securities issued by non-US governments	-	910	3,297	3,458	-	7,665
Corporate securities and other	-	-	-	-	40,115	40,115
Total trading	-	910	3,297	3,458	40,115	47,780
Available for sale						
Certificates of deposit	285,920	569,093	184,584	-	-	1,039,597
US government and federal agencies	1	-	27,466	38,628	-	66,095
Debt securities issued by non-US governments	9,956	-	-	2,500	-	12,456
Corporate debt securities	35,068	99,142	407,934	-	-	542,144
Mortgage-backed securities – Prime	-	-	8,140	21,508	-	29,648
Mortgage-backed securities – Subprime and Alt-A	1,287	15,227	14,941	3,291	-	34,746
Mortgage-backed securities – Commercial	6,320	-	-	-	-	6,320
Asset-backed securities - Student loans	-	-	9,342	141,375	-	150,717
Asset-backed securities - Automobile loans	-	84,070	28,809	-	-	112,879
Asset-backed securities - Credit cards	-	-	4,496	-	-	4,496
Collateralised debt and loan obligations	-	-	-	18,064	-	18,064
Structured investments vehicles	-	-	49,929	-	-	49,929
Equity securities	-	-	-	-	72	72
Total available for sale	338,552	767,532	735,641	225,366	72	2,067,163
Held to maturity						
Debt securities issued by non-US governments	3	1,333	16,598	10,959	-	28,893
Corporate debt securities	19,304	32,587	148,525	5,522	-	205,938
Mortgage-backed securities – Prime	-	-	-	18,498	-	18,498
Mortgage-backed securities – Subprime and Alt-A	-	6,701	79,813	114,141	-	200,655
Mortgage-backed securities – Commercial	-	-	39,996	-	-	39,996
Asset-backed securities - Student loans	-	-	10,854	-	-	10,854
Asset-backed securities - Automobile loans	-	-	10,000	-	-	10,000
Asset-backed securities - Commercial	-	-	-	31,789	-	31,789
Asset-backed securities - Credit cards	-	-	10,070	-	-	10,070
Collateralised debt and loan obligations	-	50,960	17,009	73,438	-	141,407
Structured investments vehicles	-	-	140,615	-	-	140,615
Total held to maturity	19,307	91,581	473,480	254,347	-	838,715
Total investments	357,859	860,023	1,212,418	483,171	40,187	2,953,658
Total by currency						
Bermuda dollars	-	-	-	-	183	183
US dollars	102,852	449,925	935,521	411,944	34,757	1,934,999
Other	255,007	410,098	276,897	71,227	5,247	1,018,476
Total investments	357,859	860,023	1,212,418	483,171	40,187	2,953,658

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 4: Loans

The composition of the loan portfolio at each of the indicated dates was as follows:

	31 March 2010			31 December 2009		
	Bermuda	Non-Bermuda	Total	Bermuda	Non-Bermuda	Total
Commercial loans						
Banks	780	-	780	161	-	161
Government	33,204	4,466	37,670	36,323	4,500	40,823
Commercial real estate						
Commercial mortgage	643,558	324,400	967,958	654,022	374,379	1,028,401
Construction	19,893	3,994	23,887	13,098	3,003	16,101
Commercial and industrial						
Loans	432,504	304,515	737,019	446,943	392,855	839,798
Overdrafts	28,595	74,182	102,777	22,642	92,872	115,514
Total commercial loans	1,158,534	711,557	1,870,091	1,173,189	867,609	2,040,798
Less allowance for credit losses on commercial loans	(99,071)	(10,808)	(109,879)	(99,030)	(14,263)	(113,293)
Total commercial loans after allowance for credit losses	1,059,463	700,749	1,760,212	1,074,159	853,346	1,927,505
Consumer loans						
Automobile financing	48,399	-	48,399	51,780	6,076	57,856
Credit card	55,100	23,036	78,136	57,754	24,537	82,291
Mortgages	1,246,168	705,867	1,952,035	1,246,383	618,211	1,864,594
Overdrafts	5,298	15,619	20,917	5,582	3,198	8,780
Other consumer	102,038	173,799	275,837	111,427	182,903	294,330
Total consumer loans	1,457,003	918,321	2,375,324	1,472,926	834,925	2,307,851
Less allowance for credit losses on consumer loans	(14,839)	(6,259)	(21,098)	(12,119)	(4,905)	(17,024)
Total consumer loans after allowance for credit losses	1,442,164	912,062	2,354,226	1,460,807	830,020	2,290,827
Total loans	2,615,537	1,629,878	4,245,415	2,646,115	1,702,534	4,348,649
Less allowance for credit losses	(113,910)	(17,067)	(130,977)	(111,149)	(19,168)	(130,317)
Net loans	2,501,627	1,612,811	4,114,438	2,534,966	1,683,366	4,218,332

The principal means of securing residential mortgages, personal, credit card and business loans are charges over assets and guarantees. Mortgage loans are generally repayable over periods of up to thirty years and personal, credit card, business and government loans are generally repayable over terms not exceeding five years.

The table below sets forth information about the Bank's non-accrual loans:

	31 March 2010			31 December 2009		
	Gross	Specific allowance	Total	Gross	Specific allowance	Total
Commercial loans - Bermuda	13,102	(2,070)	11,032	7,995	(1,937)	6,058
Commercial loans - Non-Bermuda	4,425	(203)	4,222	4,671	(208)	4,463
Consumer loans - Bermuda	3,808	(530)	3,278	2,596	(530)	2,066
Consumer loans - Non-Bermuda	7,782	(1,461)	6,321	6,265	(768)	5,497
Commercial and residential mortgages - Bermuda	170,338	(87,235)	83,103	174,200	(86,435)	87,765
Commercial and residential mortgages - Non-Bermuda	35,170	(7,469)	27,701	37,647	(8,704)	28,943
	234,625	(98,968)	135,657	233,374	(98,582)	134,792

For the period ended 31 March 2010, the amount of gross interest income that would have been recorded had impaired loans been current was $3.2 million (2009: $1.8 million). For the period ended 31 March 2010, the Bank recovered overdue interest of nil (2009: $0.1 million) on impaired loans that were repaid in the period. The average balance of non-accrual loans, net of specific allowances, during the period ended 31 March 2010 was $135.2 million (2009: $83.9 million).

As at 31 March 2010, $32.6 million (2009: $191.4 million) of non-delinquent loans were placed on non-accrual status since, in the opinion of Management, full payment of principal or interest was in doubt. As at 31 March 2010, $18.0 million (2009: $49.7 million) of fully secured delinquent loans remained on accrual status since collection efforts are reasonably expected to result in repayment of all amounts due under the contractual term of the loans.

(In thousands of Bermuda dollars, except per share data - unaudited)

The table below summarises the changes in the allowances for credit losses:

	31 March 2010			31 December 2009		
	Specific allowances	General allowance	Total	Specific allowances	General allowance	Total
Allowance for credit losses at beginning of period	98,582	31,735	130,317	3,458	24,938	28,396
Provision taken during the period	1,162	(104)	1,058	99,338	5,541	104,879
Recoveries	-	704	704	-	1,784	1,784
Charge-offs	(791)	(198)	(989)	(4,318)	(528)	(4,846)
Other	15	(128)	(113)	104	-	104
Allowance for credit losses at end of period	98,968	32,009	130,977	98,582	31,735	130,317

The table below presents information about the loan delinquencies, and charge-offs:

	31 March 2010			31 December 2009		
	Total delinquent loans	Loans 90 days or more past due	Charge-offs	Total delinquent loans	Loans 90 days or more past due	Charge-offs
Credit card	4,656	564	136	4,449	525	2,077
Automobile financing	649	285	245	1,758	447	1,853
Residential mortgages and other consumer loans	27,711	17,555	608	38,879	15,714	916
Consumer loans	33,016	18,404	989	45,086	16,686	4,846
Commercial loans	186,926	28,612	-	46,519	45,370	-
Total loans reported	219,942	47,016	989	91,605	62,056	4,846

Note 5: Credit Risk Concentrations

Concentrations of credit risk in the lending and off-balance sheet credit related arrangements portfolios arise when a number of customers are engaged in similar business activities, are in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentrations of risks and to obtain collateral when deemed necessary. In the Bank's commercial portfolio, risk concentrations are primarily evaluated by industry and also by geographic region. In the consumer portfolio, concentrations are primarily evaluated by products. Credit exposures include loans, guarantees and acceptances, letters of credit and commitments for undrawn lines of credit. Unconditionally cancellable credit cards and overdrafts lines of credit are excluded from the tables below.

The following table summarises the credit exposure of the Bank by business sector:

	31 March 2010			31 December 2009		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Banks and financial services	307,165	403,584	710,749	332,965	404,864	737,829
Commercial and merchandising	850,835	290,452	1,141,287	967,804	256,591	1,224,395
Governments	46,285	-	46,285	40,823	-	40,823
Individuals	2,286,296	81,313	2,367,609	2,242,599	68,616	2,311,215
Primary industry and manufacturing	41,098	53,808	94,906	69,367	77,334	146,701
Real estate	488,635	256	488,891	459,604	1,453	461,057
Hospitality industry	125,717	11,168	136,885	134,879	14,912	149,791
Transport and communication	416	-	416	2,026	2,002	4,028
Sub-total	4,146,447	840,581	4,987,028	4,250,067	825,772	5,075,839
General allowance	(32,009)	-	(32,009)	(31,735)	-	(31,735)
Total	4,114,438	840,581	4,955,019	4,218,332	825,772	5,044,104

(In thousands of Bermuda dollars, except per share data - unaudited)

The following table summarises the credit exposure of the Bank by region:

	31 March 2010			31 December 2009		
	On-balance sheet	Off-balance sheet	Total credit exposure	On-balance sheet	Off-balance sheet	Total credit exposure
Bermuda	2,525,702	478,489	3,004,191	2,557,213	509,149	3,066,362
Barbados	194,292	9,572	203,864	194,480	13,472	207,952
Cayman	548,333	218,365	766,698	541,058	169,040	710,098
Guernsey	340,185	106,699	446,884	354,485	100,911	455,396
The Bahamas	72,258	3,225	75,483	76,377	5,310	81,687
United Kingdom	465,677	24,231	489,908	526,454	27,890	554,344
Sub-total	4,146,447	840,581	4,987,028	4,250,067	825,772	5,075,839
General allowance	(32,009)	-	(32,009)	(31,735)	-	(31,735)
Total	4,114,438	840,581	4,955,019	4,218,332	825,772	5,044,104

Note 6: Customer Deposits and Deposits from Banks

(a) By Maturity

	31 March 2010			31 December 2009		
	Customers	Banks	Total	Customers	Banks	Total
Demand deposits						
Demand deposits - Non-interest bearing	1,110,101	-	1,110,101	954,191	-	954,191
Demand deposits - Interest bearing	4,671,897	31,479	4,703,376	4,753,743	27,681	4,781,424
Sub-total - demand deposits	5,781,998	31,479	5,813,477	5,707,934	27,681	5,735,615
Term deposits						
Term deposits maturing within six months	2,407,344	64,394	2,471,738	2,536,812	85,755	2,622,567
Term deposits maturing between six to twelve months	306,817	1,033	307,850	185,651	5,239	190,890
Term deposits maturing after twelve months	149,066	-	149,066	147,547	-	147,547
Sub-total - term deposits	2,863,227	65,427	2,928,654	2,870,010	90,994	2,961,004
Total	8,645,225	96,906	8,742,131	8,577,944	118,675	8,696,619

(In thousands of Bermuda dollars, except per share data - unaudited)

(b) By Type and Location

	31 March 2010			31 December 2009		
	Payable on demand	Payable on a fixed date	Total	Payable on demand	Payable on a fixed date	Total
Bermuda						
Customers	2,401,388	1,097,481	3,498,869	2,195,304	1,195,124	3,390,428
Banks	-	40,648	40,648	-	41,545	41,545
Barbados						
Customers	161,502	71,639	233,141	163,538	81,930	245,468
Banks	-	1,296	1,296	-	-	-
Cayman						
Customers	1,658,684	584,552	2,243,236	1,764,566	570,875	2,335,441
Banks	10,008	22,220	32,228	16,090	48,802	64,892
Guernsey						
Customers	1,001,012	539,656	1,540,668	980,013	377,324	1,357,337
Banks	13,896	892	14,788	7,712	404	8,116
The Bahamas						
Customers	72,530	45,834	118,364	67,429	65,760	133,189
Banks	-	1	1	-	-	-
United Kingdom						
Customers	486,881	524,066	1,010,947	537,098	578,983	1,116,081
Banks	7,576	369	7,945	3,865	257	4,122
Total Customers	5,781,997	2,863,228	8,645,225	5,707,948	2,869,996	8,577,944
Total Banks	31,480	65,426	96,906	27,667	91,008	118,675
Total	5,813,477	2,928,654	8,742,131	5,735,615	2,961,004	8,696,619

Note 7: Employee Future Benefits

The Bank maintains trusteed pension plans including non-contributory defined benefit plans and a number of defined contribution plans, and provides post-retirement medical benefits to its qualifying retirees. The defined benefit provisions under the pension plans are generally based upon years of service and average salary during the final years of employment. The defined benefit plans are not open to new participants and are non-contributory and the funding required is provided by the Bank, based upon the advice of an independent actuary.

The following table presents the expense constituents of the Bank's defined benefit pension plans and the Bank's post-retirement medical benefit plan:

	For the three month period ended	
	31 March 2010	31 March 2009
Service cost	620	599
Interest cost	1,784	1,633
Expected return on plan assets	(2,138)	(1,955)
Amortisation of past service cost	-	8
Amortisation of net actuarial loss	783	738
Total defined benefit pension expense	1,049	1,023
Post-retirement medical benefit expense		
Service cost	1,069	961
Interest cost	2,197	1,862
Amortisation of net actuarial loss	580	401
Total post-retirement medical benefit expense	3,846	3,224

Estimated Bank contributions to the defined benefit pension plans and post-retirement medical benefit plans for the 2010 financial year are $1.7 million and $3.8 million respectively.

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 8: Credit Related Arrangements and Commitments

Standby letters of credit and letters of guarantee are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer. Generally, the term of the standby letters of credit does not exceed one year, while the term of the letters of guarantee does not exceed four years. The types and amounts of collateral security held by the Bank for these standby letters of credit and letters of guarantee is generally represented by deposits with the Bank or a charge over assets held in mutual funds.

The Bank considers the fees collected in connection with the issuance of standby letters of credit and letters of guarantee to be representative of the fair value of its obligation undertaken in issuing the guarantee. In accordance with applicable accounting standards related to guarantees, the Bank defers fees collected in connection with the issuance of standby letters of credit and letters of guarantee. The fees are then recognised in income proportionately over the life of the credit agreements.

The following table presents the outstanding financial guarantees with contractual amounts representing credit risk as follows:

	31 March 2010			31 December 2009		
	Gross	Collateral	Net	Gross	Collateral	Net
Standby letters of credit	368,087	335,544	32,543	352,016	322,582	29,434
Letters of guarantee	19,253	15,126	4,127	19,601	15,135	4,466
Total	387,340	350,670	36,670	371,617	337,717	33,900

Collateral is shown at estimated market value less selling cost. Where cash is the collateral, this is shown gross including interest income.

The Bank enters into contractual commitments to extend credit, normally with fixed expiration dates or termination clauses, at specified rates and for specific purposes. Substantially all of the Bank's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for possible loan losses.

The following table presents the unfunded legally binding commitments to extend credit with contractual amounts representing credit risk as follows:

	31 March 2010	31 December 2009
Commitments to extend credit	451,170	451,016
Documentary and commercial letters of credit	2,071	3,140
Total	453,241	454,156

The Bank has a facility by one of its custodians, whereby the Bank may offer up to US$200 million of standby letters of credit to its customers on a fully secured basis. Under the standard terms of the facility, the custodian has the right to set-off against securities held of 110% of the utilised facility. At 31 March 2010, $167.3 million (2009: $133.3 million) of standby letters of credit were issued under this facility.

Legal Proceedings

There are a number of actions and legal proceedings pending against the Bank and its subsidiaries which arose in the normal course of its business. Management, after reviewing all actions and proceedings, pending against or involving the Bank and its subsidiaries, considers that the resolution of these matters would not be material to the consolidated financial position of the Bank.

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 9: Segmented Information

Total Assets by Segment

	31 March 2010	31 March 2009
Bermuda		
Community Banking	4,738,175	4,198,903
Wealth Management	366,705	351,336
Real Estate	71,810	72,671
Total Bermuda	5,176,690	4,622,910
Barbados	270,015	277,551
Cayman	2,472,339	2,607,542
Guernsey	1,703,615	1,534,520
Hong Kong	10,202	10,166
Malta	3,827	2,894
Switzerland	1,646	1,039
The Bahamas	148,116	166,455
United Kingdom	1,181,250	1,295,451
Total overseas	5,791,010	5,895,618
Less: inter-segment eliminations	(907,607)	(923,926)
Total	10,060,093	9,594,602

Segment Analysis

Period ended 31 March 2010	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
Bermuda										
Community Banking	25,337	(932)	310	13,527	38,242	47,232	(8,990)	(150,208)	-	(159,198)
Wealth Management	1,959	1,048	-	6,752	9,759	7,697	2,062	-	-	2,062
Real Estate	-	(216)	-	501	285	2,946	(2,661)	-	-	(2,661)
Sub-total Bermuda	27,296	(100)	310	20,780	48,286	57,875	(9,589)	(150,208)	-	(159,797)
Barbados	3,099	(4)	(608)	769	3,256	3,472	(216)	71	-	(145)
Cayman	5,925	609	(285)	8,691	14,940	13,657	1,283	(11,606)	-	(10,323)
Guernsey	2,931	(25)	-	5,789	8,695	5,979	2,716	(1,449)	-	1,267
Hong Kong	-	-	-	1,246	1,246	484	762	-	-	762
Malta	2	-	-	393	395	327	68	-	-	68
Switzerland	1	-	-	87	88	567	(479)	-	-	(479)
The Bahamas	556	12	-	1,287	1,855	1,870	(15)	-	-	(15)
United Kingdom	3,019	(492)	(475)	2,774	4,826	2,430	2,396	(10,076)	-	(7,680)
Sub-total overseas	15,533	100	(1,368)	21,036	35,301	28,786	6,515	(23,060)	-	(16,545)
Total before eliminations	42,829	-	(1,058)	41,816	83,587	86,661	(3,074)	(173,268)	-	(176,342)
Less: inter-segment eliminations**	-	-	-	(1,327)	(1,327)	(1,327)	-	-	-	-
Total	42,829	-	(1,058)	40,489	82,260	85,334	(3,074)	(173,268)	-	(176,342)

* During the period ending 31 March 2010 there were no central allocation costs.

** Principally rent and management fees.

(In thousands of Bermuda dollars, except per share data - unaudited)

Period ended 31 March 2009	Net interest income: Customer	Net interest income: Inter-segment	Provision for credit losses	Non-interest income	Revenue before gains and losses	Total expenses	Net income before gains and losses and central allocations	Gains and losses	Central allocations*	Net income
Bermuda										
Community Banking	28,095	(2,734)	(945)	11,007	35,423	33,925	1,498	(29,238)	6,951	(20,789)
Wealth Management	2,573	280	-	10,647	13,500	8,023	5,477	-	(6,620)	(1,143)
Real Estate	-	(220)	-	1,271	1,051	2,499	(1,448)	-	1,448	-
Sub-total Bermuda	30,668	(2,674)	(945)	22,925	49,974	44,447	5,527	(29,238)	1,779	(21,932)
Barbados	2,876	4	118	822	3,820	2,533	1,287	54	(15)	1,326
Cayman	7,612	3,346	(151)	9,072	19,879	12,353	7,526	-	(1,107)	6,419
Guernsey	2,455	390	-	5,412	8,257	6,844	1,413	(272)	(354)	787
Hong Kong	6	-	-	569	575	781	(206)	-	-	(206)
Malta	4	-	-	208	212	264	(52)	-	-	(52)
Switzerland	2	-	-	72	74	835	(761)	-	-	(761)
The Bahamas	561	97	-	1,258	1,916	1,765	151	-	(96)	55
United Kingdom	5,072	(1,163)	-	1,917	5,826	2,647	3,179	(9,381)	(207)	(6,409)
Sub-total overseas	18,588	2,674	(33)	19,330	40,559	28,022	12,537	(9,599)	(1,779)	1,159
Total before eliminations	49,256	-	(978)	42,255	90,533	72,469	18,064	(38,837)	-	(20,773)
Less: inter-segment eliminations**	-	-	-	(1,636)	(1,636)	(1,636)	-	-	-	-
Total	49,256	-	(978)	40,619	88,897	70,833	18,064	(38,837)	-	(20,773)

* This includes the allocation of property costs to the Bermuda business lines. In addition, it includes the charge out of the central costs across the Group.
** Principally rent and management fees.

Note 10: Accounting for Derivative Instruments and Risk Management

The Bank uses derivatives in the asset and liability management (ALM) of positions and to meet the needs of its customers with their risk management objectives. The Bank's derivative contracts principally involve over the counter transactions that are privately negotiated between the Bank and the counterparty to the contract and include interest rate contracts and foreign exchange contracts.

The Bank pursues opportunities to reduce its exposure to credit losses on derivatives by entering into International Swaps and Derivatives Association Master Agreements (ISDAs). Depending on the nature of the derivative transaction, bilateral collateral arrangements may be used as well. When the Bank is engaged in more than one outstanding derivative transaction with the same counterparty, and also has a legally enforceable master netting agreement with that counterparty, the net marked to market exposure represents the netting of the positive and negative exposures with that counterparty. When there is a net negative exposure, the Bank regards its credit exposure to the counterparty as being zero. The net marked to market position with a particular counterparty represents a reasonable measure of credit risk when there is a legally enforceable master netting agreement between the Bank and that counterparty.

Certain of these agreements contain credit-risk-related contingent features in which the counterparty has the option to accelerate cash settlement of the Bank's net derivative liabilities with the counterparty in the event the Bank's credit rating falls below specified levels or the liabilities reaches certain levels. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on 31 March 2010, was $12.0 million. The Bank has posted $11.8 million collateral against these liabilities and therefore the maximum amount of termination payments that could have been required at 31 March 2010 was $0.2m. Accelerated settlement because of such events would not affect net income and would not have a material effect on the consolidated financial position or liquidity of the Bank.

All derivative financial instruments, whether designated as hedges or not, are recorded on the consolidated balance sheet at fair value within other assets or other liabilities. These amounts include the effect of netting. The accounting for changes in the fair value of a derivative in the Consolidated Statement of Operations depends on whether the contract has been designated as a hedge and qualifies for hedge accounting.

Notional amounts

The notional amounts are not recorded as assets or liabilities on the Consolidated Balance Sheet as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Credit risk is limited to the positive fair value of the derivative instrument, which is significantly less than the notional amount.

Fair value

Derivative instruments, in the absence of any compensating up-front cash payments, generally have no market value at inception. They obtain value, positive or negative, as relevant interest rates, exchange rates, equity or commodity prices or indices change, such that previously contracted derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank. The fair value is defined as the profit or loss associated with replacing the derivative contracts at prevailing market prices.

Risk management derivatives

The Bank primarily enters into derivative contracts as part of its overall interest rate risk management strategy to minimise significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Bank's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain Consolidated Balance Sheet assets and liabilities so that movements in interest rates do not adversely affect the net interest margin. Derivative instruments that are used as part of the Bank's interest rate risk management strategy include interest rate swap contracts that have indices related to the pricing of specific Consolidated Balance Sheet assets and liabilities. Interest rate swaps generally involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date.

The Bank uses derivative instruments to hedge its exposure to interest rate risk. Certain hedging relationships are formally designated and qualify for hedge accounting as fair value or cash flow hedges. Other derivatives that are entered into for risk management purposes as economic hedges are not formally designated as hedges and, therefore, are accounted for as if they were trading instruments. In order to qualify for hedge accounting, a formal assessment is performed on a calendar quarter basis to verify that derivatives used in designated hedging transactions continue to be highly effective as offsets to changes in fair value or cash flows of the hedged item. If a derivative ceases to be highly effective, or if the hedged item matures, is sold, or is terminated, hedge accounting is terminated and the derivative is treated as if it were a trading instrument.

Fair value hedges

Derivatives are designated as fair value hedges to minimise the Bank's exposure to changes in the fair value of assets and liabilities due to movements in interest rates. The Bank enters into interest rate swaps to convert its fixed-rate long-term loans to floating-rate loans, and convert fixed-rate deposits to floating-rate deposits. Changes in fair value of these derivatives are recognised in income. For fair value hedges, the Bank applies the "shortcut" method of accounting, which assumes there is no ineffectiveness in a hedge. As a result, changes recorded in the fair value of the hedged item are equal to the offsetting gain or loss on the derivative and are reflected in the same line item. For the period ended 31 March 2010 and 2009, no gains or losses were realised from ineffective portions of fair value hedges.

Cash flow hedges

Derivatives are designated as cash flow hedges in order to minimise the variability in cash flows of interest earning assets caused by movements in interest rates. The effective portion of changes in the fair value of such derivatives is recognised in accumulated other comprehensive income, a component of shareholders' equity. When the hedged item impacts earnings, balances in other comprehensive income are reclassified to the same income or expense classification as the hedged item. The Bank applies the "shortcut" method of accounting for cash flow hedges of held to maturity investments, in assessing whether these hedging relationships are highly effective at inception and on an ongoing basis. Any ineffectiveness in cash flow hedge is recognised in earnings.

As of 31 March 2010 and 2009 there were no cash flow hedges in place and there were no deferred net gains or losses on derivative instruments accumulated in other comprehensive income in relation with cash flow hedges.

Derivatives not formally designated as hedges

Derivatives not formally designated as hedges are entered into to manage the interest rate risk of fixed rate deposits with banks. Changes in the fair value of derivative instruments not formally designated as hedges are recognised in income.

Client service derivatives

The Bank enters into foreign exchange contracts and interest rate caps primarily to meet the foreign exchange needs of its customers. Foreign exchange contracts are agreements to exchange specific amounts of currencies at a future date at a specified rate of exchange. Changes in the fair value of client services derivative instruments are recognised in income.

(In thousands of Bermuda dollars, except per share data - unaudited)

The following table shows the aggregate notional amounts of derivative contracts outstanding listed by type and respective gross positive or negative fair values and divided by those used for risk management (sub-classified as hedging and those that do not qualify for hedge accounting), client services and credit derivatives. Fair value of derivatives are recorded in the Consolidated Balance Sheet in Other assets and Other liabilities. Gross positive fair values are recorded in Other assets and gross negative fair values are recorded in Other liabilities, subject to netting when master netting agreements are in place.

31 March 2010	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	185,319	-	(14,517)	(14,517)
Customer deposits	Interest rate swaps	9,047	-	(386)	(386)
Subtotal fair value hedges		194,366	-	(14,903)	(14,903)
Not designated as hedging instruments					
Term deposits with banks	Interest rate swaps	330,357	1,346	(2)	1,344
Subtotal risk management derivatives		524,723	1,346	(14,905)	(13,559)
Client Services Derivatives					
	Spot and forward foreign exchange	2,271,518	14,058	(13,972)	86
	Interest rate caps	36,410	545	(545)	-
Subtotal client services derivatives		2,307,928	14,603	(14,517)	86
Total derivative instruments		2,832,651	15,949	(29,422)	(13,473)

31 December 2009	Derivative Instrument	Notional amounts	Positive fair value	Negative fair value	Net fair value
Risk Management Derivatives					
Fair Value Hedges					
Fixed rate loans	Interest rate swaps	188,689	-	(13,054)	(13,054)
Customer deposits	Interest rate swaps	10,497	11	(538)	(527)
Subtotal fair value hedges		199,186	11	(13,592)	(13,581)
Not designated as hedging instruments					
Time deposits with banks	Interest rate swaps	380,714	705	(933)	(228)
Subtotal risk management derivatives		579,900	716	(14,525)	(13,809)
Client Services Derivatives					
	Spot and forward foreign exchange	2,336,222	27,529	(27,996)	(467)
	Interest rate caps	38,808	752	(752)	-
Subtotal client services derivatives		2,375,030	28,281	(28,748)	(467)
Other	Credit derivative	-	-	-	-
Total derivative instruments		2,954,930	28,997	(43,273)	(14,276)

The following table shows the location and amount of gains (losses) recorded in the Consolidated Statement of Operations.

		For the three month period ended	
Derivative Instrument	**Consolidated Statement of Operations line item**	**31 March 2010**	31 March 2009
Interest rate swaps	Net other gains (losses)	1,571	133
Forward foreign exchange	Foreign exchange revenue	(179)	349
Credit derivative	Net other gains (losses)	-	1,830
Total net gains recognised in net loss		1,392	2,312

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 11: Fair Value of Financial Instruments

The following table presents the financial assets and liabilities that are measured at fair value on a recurring basis and classifies such fair value based on the type of input used in the related valuations as described in Note 1 of the Bank's audited financial statements for the year ending 31 December 2009.

Financial instruments in Level 1 includes equity shares actively traded and redeemable shares of mutual funds.

Financial instruments in Level 2 include equity securities not actively traded, certificate of deposits, corporate bonds, mortgage-backed securities and other asset-backed securities, interest rates swaps and caps, forward foreign exchange and, in 2008 only, a credit derivative contract.

Financial instruments in Level 3 include non-redeemable private equity shares, corporate bonds, mortgage-backed securities and other asset-backed securities for which the market is relatively illiquid and for which information about actual trading prices is not readily available.

Items that are recognised at fair value on a recurring basis

	31 March 2010				31 December 2009			
	Fair value determination				Fair value determination			
	Level 1	Level 2	Level 3	Total carrying amount / Fair value	Level 1	Level 2	Level 3	Total carrying amount / Fair value
Financial assets								
Investments								
Trading								
Debt securities issued by non-US governments	-	7,196	-	7,196	-	7,665	-	7,665
Equity securities	9,254	20,904	8,662	38,820	11,674	19,839	8,602	40,115
Available for sale								
Certificates of deposit	-	1,351,908	-	1,351,908	-	1,039,597	-	1,039,597
US government and federal agencies	-	41,099	3,643	44,742	-	66,095	-	66,095
Debt securities issued by non-US governments	-	52,095	-	52,095	-	12,456	-	12,456
Corporate debt securities	-	155,472	291,904	447,376	-	349,130	193,014	542,144
Mortgage-backed securities – Prime	-	-	-	-	-	6,506	23,142	29,648
Mortgage-backed securities – Subprime and Alt-A	-	-	-	-	-	32,849	1,897	34,746
Mortgage-backed securities – Commercial	-	-	-	-	-	6,320	-	6,320
Asset-backed securities - Student loans	-	62,574	88,672	151,246	-	58,210	92,507	150,717
Asset-backed securities - Automobile loans	-	-	-	-	-	108,980	3,899	112,879
Asset-backed securities - Credit cards	-	-	-	-	-	4,496	-	4,496
Collateralised debts and loans obligations	-	-	-	-	-	-	18,064	18,064
Structured investments vehicles	-	135,926	-	135,926	-	-	49,929	49,929
Equity securities	-	69	-	69	-	72	-	72
Other assets - Derivatives	-	15,949	-	15,949	-	28,997	-	28,997
Financial liabilities								
Other liabilities - Derivatives	-	29,422	-	29,422	-	43,273	-	43,273

(In thousands of Bermuda dollars, except per share data - unaudited)

Transfers of securities

	31 March 2010	
	Trading investments	Available for sale investments
Transfers in and (out) of Level 1	-	-
Transfers in and (out) of Level 2	19,307	669,418

The transfer in to Available for sale investments Level 2 classification is primarily due to the transfer of the HTM portfolio to the AFS portfolio. These securities were transferred into the AFS portfolio and the related Level 2 hierarchy at the fair value of the securities.

	For the three month period ended			
	31 March 2010		31 March 2009	
	Trading investments	Available for sale investments	Trading investments	Available for sale investments
Carrying amount at beginning of period	8,602	382,452	12,599	-
Proceeds from sale	-	(45,236)	-	-
Realised and unrealised gains recognised in net income	128	(375)	(2,054)	-
Realised and unrealised gains (losses) recognised in other comprehensive income	-	(145,259)	-	-
Transfers in and out of Level 3	-	197,038	-	-
Foreign exchange translation adjustment	(68)	(4,401)	44	-
Carrying amount at end of period	8,662	384,219	10,589	-

Items other than those recognised at fair value on a recurring basis

	31 March 2010			31 December 2009		
	Carrying amount	Fair value	Appreciation / (depreciation)	Carrying amount	Fair value	Appreciation / (depreciation)
Financial assets						
Cash and deposits with banks	441,575	441,575	-	1,986,798	1,986,798	-
Investments held to maturity	-	-	-	838,715	691,193	(147,522)
Loans, net of allowance for credit losses						
Commercial	1,760,212	1,760,212	-	1,927,505	1,927,505	-
Consumer	2,354,226	2,354,226	-	2,290,827	2,290,827	-
Financial liabilities						
Customer deposits						
Demand deposits	5,781,998	5,781,998	-	5,707,948	5,707,948	-
Term deposits	2,863,227	2,867,467	(4,240)	2,869,996	2,874,019	(4,023)
Deposits from banks	96,906	96,906	-	118,675	118,675	-
Subordinated capital	282,587	243,619	38,968	283,085	223,624	59,461

(In thousands of Bermuda dollars, except per share data - unaudited)

Note 12: Interest Rate Risk

The following table sets out the assets, liabilities and shareholders' equity and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than the contractual maturity or repricing date. Examples of this include fixed-rate mortgages, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity, and certain investments which have call or pre-payment features.

31 March 2010	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	3,109	3	8	-	-	158	3,278
Investments	1,388	348	216	113	22	142	2,229
Loans	3,569	25	70	197	142	111	4,114
Premises, equipment and computer software	-	-	-	-	-	250	250
Other assets	-	-	-	-	-	189	189
Total assets	8,066	376	294	310	164	850	10,060
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	749	749
Demand deposits	4,703	-	-	-	-	1,110	5,813
Term deposits	2,053	419	308	146	3	-	2,929
Other liabilities	-	-	-	-	-	286	286
Subordinated capital	90			108	85	-	283
Total liabilities and shareholders' equity	6,846	419	308	254	88	2,145	10,060
Interest rate swaps	26	49	(48)	46	(73)	-	-
Interest rate sensitivity gap	1,246	6	(62)	102	3	(1,295)	-
Cumulative interest rate sensitivity gap	1,246	1,252	1,190	1,292	1,295	-	-

31 December 2009	Earlier of contractual maturity or repricing date						
(in $ millions)	Within 3 months	3 to 6 months	6 to 12 months	1 to 5 years	After 5 years	Non-interest bearing funds	Total
Assets							
Cash and deposits with banks	1,891	2	2	-	-	92	1,987
Investments	1,908	146	488	164	25	223	2,954
Loans	3,706	44	59	206	60	143	4,218
Premises, equipment and computer software	-	-	-	-	-	244	244
Other assets	-	-	-	-	-	192	192
Total assets	7,505	192	549	370	85	894	9,595
Liabilities and shareholders' equity							
Shareholders' equity	-	-	-	-	-	355	355
Demand deposits	4,782	-	-	-	-	954	5,736
Term deposits	2,114	508	191	144	4	-	2,961
Other liabilities	-	-	-	-	-	260	260
Subordinated capital	-	90	-	108	85	-	283
Total liabilities and shareholders' equity	6,896	598	191	252	89	1,569	9,595
Interest rate swaps	99	19	67	(111)	(74)	-	-
Interest rate sensitivity gap	708	(387)	425	7	(78)	(675)	-
Cumulative interest rate sensitivity gap	708	321	746	753	675	-	-

Note 13: Earnings per Share

Earnings per share has been calculated using the weighted average number of common shares outstanding during the year after deduction of the shares held as treasury stock. The dilutive effect of share-based compensation plans was calculated using the treasury stock method, whereby the proceeds received from the exercise of share-based awards are assumed to be used to repurchase outstanding shares, using the average market price of the Bank's shares for the period. Diluted earnings per common share includes the dilutive effect resulting from the conversion of mandatorily and contingent convertible preferred stock. Number of shares are expressed in thousands.

	For the three month period ended	
	31 March 2010	31 March 2009
Basic earnings per share		
Net loss for the period	**(176,342)**	(20,773)
Less: Preferred dividends declared and guarantee fee	**(4,500)**	-
Net loss attributable for common shareholders	**(180,842)**	(20,773)
Weighted average number of common shares issued	**145,720**	98,909
Weighted average number of shares on conversion of mandatorily and contingent convertible preferred stock	**99,986**	-
Weighted average number of common shares held as treasury stock	**(3,146)**	(6,502)
Adjusted weighted average number of common shares	**242,560**	92,407
	(0.75)	(0.22)
Diluted earnings per share		
Net loss income attributable for common shareholders	**(180,842)**	(20,773)
Weighted average number of common shares issued	**145,720**	98,909
Weighted average number of shares on conversion of mandatorily and contingent convertible preferred stock	**99,986**	-
Weighted average number of common shares held as treasury stock	**(3,146)**	(6,502)
Dilutive stock options	**-**	341
Adjusted weighted average number of diluted common shares	**242,560**	92,748
	(0.75)	(0.22)

Note 14: Share-Based Payments

As a result of capital transaction announced on 2 March 2010, shares in the Bank's two share-based compensation plans being the Stock Option compensation plan and the Executive long-term incentive restricted shares compensation plan (ELTIP) became fully vested. Consequently compensation expense was recognised on the Stock Option compensation plan and ELTIP of $2.6 million and $3.4 million respectively.

In conjunction with the capital raise, the Board of Directors approved the 2010 Stock Option Plan (the “Plan”) on 27 April 2010. Under the plan, five per cent of the Company’s fully diluted common shares, equal to approximately 29 million shares, are available for grant to certain officers. Such options will have time and performance vesting metrics and also require surrender off all prior vested options by executives. It is estimated approximately 5 million currently outstanding options will be cancelled under the program.

Note 15: Capital Structure

Authorised capital

The Bank's total authorised share capital consists of (i) 260 million ordinary shares of par value BD$1.00, (ii) 100,200,001 preference shares of par value US$0.01and (iii) 50 million preference shares of par value £0.01.

At the special general meeting of shareholders held on 14 April 2009, the Board of Directors were granted the authority to issue, allot or grant options, warrants or similar rights over or otherwise dispose of all the authorised but unissued share capital of the Bank.

On 2 March 2010, the Bank issued 144.8 million common shares of par value $1 per share, for a consideration of $175 million.

Preferred shares

On 22 June 2009, the Bank issued 200,000 Government guaranteed, 8.00% Non-Cumulative Perpetual Limited Voting Preference Shares (the "Preference Shares"). The issuance price was US$1,000 per share. The Preference Share principal and dividend payments are guaranteed by the Government of Bermuda.

Holders of Preference Shares will be entitled to receive, on each Preference Share only when, as and if declared by our Board of Directors, non-cumulative cash dividends at a rate per annum equal to 8.00% on the liquidation preference of $1,000 per Preference Share payable quarterly in arrears.

At any time after the expiry of the guarantee offered by the Government of Bermuda, and subject to the approval of the Bermuda Monetary Authority, the Bank may redeem, in whole or in part, any Preference Shares at the time issued and outstanding, at a redemption price equal to the liquidation preference plus any unpaid dividends at the time.

In exchange for the Government's commitment, the Bank issued to the Government 4,279,601 warrants to purchase common shares of the Bank at an exercise price of $7.01. The warrants expire on 22 June 2019.

On 2 March 2010, the Bank issued 281,770 mandatorily convertible preference shares of par value $0.01 per share and 93,230 contingent convertible preference shares of par value $0.01 per share, for a consideration of $281.8 million and $93.2 million respectively.

Following the capital raise on 2 March 2010 the terms of the 4,279,601 warrants with an exercise price of $7.01 previously issued to the Bermuda Government in conjunction with the issuance of 200,000 Government guaranteed 8% Non-Cumulative Perpetual Limited Voting Preference Shares in 2009 were adjusted in accordance with the terms of the guarantee. Subsequently, the Government of Bermuda now holds 4,150,774 warrants with an exercise price of $3.614.

Note 16: Related parties transactions

Butterfield Fulcrum Group Limited

On 11 September 2008, the Bank completed the sale of its international fund administration services businesses to the Fulcrum Group. The sale was accomplished by a share purchase agreement (SPA), through which the Bank sold six subsidiaries that carried out its fund administration services operations. The Bank received, pursuant to the sale, an upfront cash payment of $133 million and a 40% equity ownership in the combined fund administration services business, Butterfield Fulcrum Group Limited. The Bank also has the right to nominate two directors to the Butterfield Fulcrum Group's seven-member board of directors. As at 31 March 2010, these positions were held by Brad Kopp, the Bank's President and Chief Executive Officer, and Robert A. Mulderig, Butterfield's Chairman of the Board.

To facilitate the transaction, the Bank provided the Butterfield Fulcrum Group with $65.0 million in seven-year term debt financing and a $14.5 million three-year revolving credit facility on commercial market terms. The Bank also entered into a transition services agreement (TSA) with the Butterfield Fulcrum Group. Under the TSA, the Bank agreed to provide certain transition services to the Butterfield Fulcrum Group, including use of certain office facilities, information technologies and personnel, during the transition period. The Bank's obligations under the TSA expired during the year ended 31 December 2009. As part of the SPA, the Bank and the Butterfield Fulcrum Group undertook to create an arms-length client referral arrangement through which both the Bank and the Butterfield Fulcrum Group have the option to refer clients in need of each others' services in return for a nominal fee. Since the sale, the Bank has substantially ceased all fund administration services operations.

Employee loan programme

As of 17 May 2005, the Bank established a programme to offer loans with preferential rates to eligible bank employees, subject to certain conditions set by the Bank and provided that such employees meet certain credit criteria. Loan payments are serviced by automatically debiting the employee's chequing or savings account with the Bank. Applications for loans are handled according to the same policies as those for the Bank's regular retail banking clients. The Bank's ability to offer preferential rates on loans depends upon a number of factors, including market conditions, regulations and the Bank's overall profitability. The Bank has the right to change our employee loan policy at any time after notifying participants.

Interested officers and director transactions

In the ordinary course of business, the Bank provides loans and other banking services to the Bank's officers and directors, as well as their family members and companies with which they are affiliated. The Bank provide these services on terms which management believe are no less favourable to the Bank than those with unaffiliated parties of comparable creditworthiness.

In connection with the capital transaction announced by the Bank on 2 March 2010, the Chief Executive Officer and the Senior Vice President General Counsel subscribed and paid for $1.5 million and $0.3 million of common and mandatorily convertible preference shares, respectively. The terms and conditions were the same as the other new investors.

The Bank also created a Director and Executive Stock Purchase Plan as part of the capital raise whereby directors and management will purchase an aggregate of approximately 5 million common shares at $1.21. The total consideration will be approximately $6 million, of which $4 million will be financed for certain executives at normal staff rates. The shares have not been issued as of 31 March 2010.

Charitable Trust

The Bank historically has provided a loan facility to the Charitable Trust which it used to purchase shares in the Bank which amounted to $1.2 million at 31 March 2010 (2009: $2.7 million). As at 31 March 2010, the Charitable Trust held 729,088 Bank's common shares (2009: 729,088 shares).

Capital Transaction

The Carlyle Group and Canadian Imperial Bank of Commerce ("CIBC') each acquired approximately 22% of the Bank's equity voting power, along with the right to each designate 2 members of the Board of Directors in connection with the capital transaction announced by the Bank on 2 March 2010.

The Bank incurred $34.5 million in transaction fees in respect of the Capital Raise (of which $8.5 million was paid to The Carlyle Group and $6.5 million paid to CIBC) and $3 million in respect of the Rights Offering. As part of the cost of the Capital Raise, the Bank's investment advisor was compensated $10 million in cash and $3.5 million in common shares based on the same terms and conditions applicable to the other new investors. The aforementioned shares have not been issued at 31 March 2010.

The Bank entered into a commitment letter for a $500 million line of credit at market rates with CIBC. The fees incurred for the line of credit facility were $7 million and it is expected that the line of credit will be fully executed before 31 May 2010.

Note 17: Comparative Information

Certain prior period figures have been reclassified to conform to current period presentation.

Note 18: Subsequent Events

Following the Bank's Annual General Meeting held on 8 April 2010, The Bank of N.T. Butterfield & Son Ltd's shareholders approved an increase in the Authorised share capital to 26,000,000,000 common shares of par value BD$0.01, 110,200,001 preference shares of par value US$0.01 and $50 million preference shares of par value £0.01. Subsequent to the increase, conversion of 281,770 mandatorily convertible preference shares into 233,157,035 common shares and 93,230 contingent convertible preference shares into 77,144,993 common shares took place.

The Bank declared a Rights Offering ("the Offering") on 12 April 2010. The Offering entitles existing investors (excluding the new investors and investors with Canadian, U.K., EEC and U.S. addresses) to subscribe for their pro-rata portion of a maximum $130 million in common shares and contingent value preference shares. Each rights unit consist of 0.92308 Common Shares and 0.07692 Contingent Value Preference Share. The Contingent Value Preference Shares have specific rights and conditions attached which is explained in detail in the Prospectus of The Rights Offering. Following closing of the Offering on 11 May 2010 the Offering net proceeds will be used to repurchase shares from the 2 March 2010 investors at the same price at which the investors originally subscribed for the shares.

Subsequent events have been evaluated up to 26 April 2010. The financial statements were available to be issued as of 27 April 2010.